

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit**  
**of the County of Monroe, New York)**

**Financial Statements as of**  
**December 31, 2010**  
**Together with**  
**Independent Auditors' Report**

**Bonadio & Co., LLP**  
Certified Public Accountants

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

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## INDEPENDENT AUDITORS' REPORT

March 10, 2011

To the Board of Directors of  
Monroe County Water Authority:

We have audited the accompanying financial statements of the business-type activities of Monroe County Water Authority (the Authority), a public benefit corporation of the State of New York and a discretely presented component unit of the County of Monroe, New York, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Authority's 2009 financial statements and, in our report dated March 11, 2010, we expressed an unqualified opinion on the respective financial statements of the business-type activities.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of December 31, 2010 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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(Continued)

## **INDEPENDENT AUDITORS' REPORT**

(Continued)

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**DECEMBER 31, 2010**

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The Monroe County Water Authority (the Authority) is a not-for-profit public benefit corporation that reliably provides quality, affordable water to residents of Monroe County and area communities who request service.

The financial statements of the Authority include the Statement of Net Assets, the Statement of Revenue, Expenses and Change in Net Assets, and the Statement of Cash Flows, and related notes to the financial statements. The Statement of Net Assets provides information about the nature and the amounts of investments and resources (assets) and the obligations to the Authority's creditors (liabilities), with the difference between the two reported as net assets.

The Statement of Revenue, Expenses and Change in Net Assets, or income statement, shows how the Authority's net assets changed during the year. It accounts for all the year's revenues and expenses, measures the financial results of the Authority's operations for the year and can be used to determine how the Authority has funded its costs.

The Statement of Cash Flows provides information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, capital and related financing, and investing activities.

The notes to the financial statements contain information that is essential to the understanding of the financial statements, such as the Authority's accounting methods and policies.

Management provides the following discussion and analysis (MD&A) of the Authority's financial position and activities. This overview is provided for the year ended December 31, 2010. The information contained in this analysis should be used by the reader in conjunction with the information contained in our audited financial statements and the notes to those financial statements, all of which follow this narrative on the subsequent pages.

**FINANCIAL HIGHLIGHTS**

The 2010 financial statements are presented with comparative totals from 2009.

- The assets of the Authority exceeded its liabilities at the close of its most recent fiscal year by \$294,197,974 (net assets). Of this amount \$52,844,741 (unrestricted net assets) may be used to meet the Authority's ongoing obligations.
- Operating revenues decreased approximately \$144,000 or 0.3% during the current year from approximately \$52.2 million for the 2009 fiscal year to approximately \$52.0 million for the 2010 fiscal year. The decrease in water sales was primarily a result of a cool, wet summer, offset by customer growth of approximately 0.5%.

## FINANCIAL HIGHLIGHTS (Continued)

- Several major construction projects were completed during the year increasing the Authority's assets as follows:

<u>Project Name</u>	<u>2010</u>
Greece Main Replacement	\$ 319,606
Mill Road Improvement Project, Phase I	\$ 722,830
2008 Cement Mortar Lining Program	\$ 1,286,051
Janes Road Reconstruction Water Main Relocation	\$ 729,722
Summit Street Water Main Replacement	\$ 341,933

- The New Construction Fund, an account established under the Trust Indenture to accumulate monies for future construction, decreased by \$8,480,699. The detailed charges include a \$2,500,000 addition to the fund was included in the 2010 budget as well as an additional transfer of \$300,000 from operations and maintenance monies; a payment of \$10,006,040 for expenses for the East Side Water Treatment Plant; and finally additional increases resulting from interest earnings and unrealized gains.

### Overview of the Financial Statements

This annual report consists of a series of two parts, management's discussion and analysis (this section) and the basic financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses and Change in Net Assets provide both long-term and short-term information about the Authority's overall financial status. The Statement of Cash Flows provides information on the sources and uses of the Authority's cash through operating, capital and related financing and investing activities.

### Financial Statements

The Authority's financial statements are prepared on the accrual basis of accounting promulgated by the Governmental Accounting Standards Board (GASB). The Authority is a single-purpose entity and revenues are recognized when earned, not received. Expenses are recognized when incurred, not when they are paid.

### Budget vs. Actual

Water revenues are projected based on average historical usage with the typical residential customer using approximately 80 thousand gallons of water annually. This year's water revenues were less than the previous fiscal year, and were 4.0% under budget. Other water and operating revenues include: 1) charges to customers for late fees, 2) water district fees, 3) income from cellular tower site leases, 4) fire protection service charges, and 5) interest income.

### Summary of Operations and Change in Net Assets

	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 52,032,001	\$ 52,176,425
Operating expenses	<u>(46,394,523)</u>	<u>(43,728,908)</u>
Operating income	5,637,478	8,447,517
Non-operating expenses, net	<u>(1,556,391)</u>	<u>(1,652,911)</u>
Income before capital contributions	4,081,087	6,794,606
Capital contributions	<u>9,184,780</u>	<u>3,722,337</u>
Change in net assets	<u>\$ 13,265,867</u>	<u>\$ 10,516,943</u>

## FINANCIAL HIGHLIGHTS (Continued)

### Summary of Operations and Change in Net Assets (Continued)

Capital contributions are revenues from grants, developers and customers for capital water system improvements donated to the Authority.

### Financial Position Summary

Net assets are an indication of the Authority's financial strength. The Authority's net assets as of December 31, 2010 are \$294,197,974. A summary of the Authority's financial position is shown below.

	<u>2010</u>	<u>2009</u>
ASSETS:		
Current assets	\$ 41,983,558	\$ 42,720,467
Capital assets	288,781,280	255,154,607
Funds held by trustee	121,627,146	33,906,792
Restricted assets	<u>4,856,228</u>	<u>670,586</u>
Total assets	<u>457,248,212</u>	<u>332,452,452</u>
LIABILITIES:		
Current liabilities, including current portion of debt	17,194,625	12,980,045
Other liabilities (long-term)	<u>145,855,613</u>	<u>38,540,300</u>
Total liabilities	<u>163,050,238</u>	<u>51,520,345</u>
NET ASSETS:		
Invested in capital assets, net of related debt	236,497,005	215,412,197
Restricted	4,856,228	670,586
Unrestricted	<u>52,844,741</u>	<u>64,849,324</u>
Total net assets	<u>\$ 294,197,974</u>	<u>\$ 280,932,107</u>

As a water utility, the Authority has a significant investment in infrastructure. The Authority's infrastructure includes pipelines ranging from 2" in diameter to 6' in diameter, 39 booster pumping stations, 42 tanks, 2 reservoirs, 3 water treatment plants, land and other facilities required in the treatment and distribution of potable water to its customers. The Authority's net assets also include funds available to pay for ongoing and future construction of replacements, and/or additions, to this infrastructure.

### MCWA Rates and Charges

The Authority sets its rates annually in concurrence with the adoption of its annual operating budget. The Authority is required by its Master Trust Indenture dated October 1, 1991 and Supplemental Indentures issued with and specific to each subsequent revenue bond issue (Trust Indentures) to set rates and fees sufficient to cover all of its operating and capital expenses. A summary of the Authority's change in rates is shown in the table below.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Residential/quarterly	2.6%	(0.40%)	0.00%
Large commercial/monthly	4.2%	(0.10%)	0.00%
Water districts/wholesale	4.8%	0.00%	0.00%
Overall increase (decrease)	2.3%	(0.28%)	0.00%

## FINANCIAL HIGHLIGHTS (Continued)

### MCWA Rates and Charges (Continued)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Residential/quarterly:			
Daily base charge per connection (up to ¾")	\$ 0.12	\$ 0.12	\$ 0.12
Commodity charge per 1,000 gallons	\$ 2.57	\$ 2.49	\$ 2.50
Large commercial/monthly:			
Daily base charge per connection	\$ 0.36 - 4.44	\$ 0.36 - 4.44	\$ 0.36 - 4.44
Commodity charge per 1,000 gallons -			
First 125,000 gallons	\$ 2.57	\$ 2.49	\$ 2.50
Each additional 1,000 gallons	\$ 1.75	\$ 1.67	\$ 1.67
Water district rate:			
Daily base charge per connection	\$ 0.36 - 4.44	\$ 0.36 - 4.44	\$ 0.36 - 4.44
Commodity charge per 1,000 gallons	\$ 1.75	\$ 1.67	\$ 1.67

### Summary of Operating Revenues

	<u>2010</u>	<u>2009</u>
Water sales:		
Residential/quarterly	\$ 39,944,917	\$ 40,153,199
Large commercial/monthly	4,967,522	4,919,377
Water districts/wholesale	<u>3,238,811</u>	<u>3,175,017</u>
Total water sales	\$ 48,151,250	\$ 48,247,593
Other water and operating revenue	<u>3,880,751</u>	<u>3,928,832</u>
Total operating revenue	<u>\$ 52,032,001</u>	<u>\$ 52,176,425</u>

### Revenues

Water revenues decreased over 2010. The unusually wet, cool weather in 2010 brought decreases in summer demand, which resulted in lower sales.

Other water revenue includes private fire services and late charges, as well as payments made to the Authority by both Monroe County and Genesee County for debt service on facilities constructed and owned by the Authority for the benefit of the respective counties. In 2010, the Authority received \$727,358 from Monroe County and \$1,136,590 from Genesee County. Other operating revenues included cell tower rents of \$247,906 in 2010 compared to \$220,971 in 2009, a 12.1% increase.

### Operating Expenses

The Authority's expenses (excluding depreciation and amortization) are budgeted and tracked functionally by operating department. The Authority is functionally divided into the following departments: Administration, Production/Transmission, Engineering, Operations & Maintenance, and Finance & Business Services.

## FINANCIAL HIGHLIGHTS (Continued)

### Operating Expenses (Continued)

The following is a breakdown of the Authority's functional expenses by operating department (excluding depreciation and amortization):

	<u>2010</u>	<u>2009</u>
Functional expenses:		
Administration	\$ 678,769	\$ 691,588
Production/transmission	12,459,414	11,012,055
Engineering	2,620,222	2,427,011
Operations and maintenance	11,121,543	10,770,577
Finance and business services	<u>8,030,070</u>	<u>7,597,420</u>
Total functional expenses	<u>\$ 34,910,018</u>	<u>\$ 32,498,651</u>

The following is a breakdown of the Authority's total operating expenses:

	<u>2010</u>	<u>2009</u>
Operating expenses:		
Salaries and fringe benefits	\$ 19,143,633	\$ 17,397,491
Operations and maintenance	10,334,310	9,466,921
General and administrative	5,432,075	5,634,239
Depreciation and amortization	11,277,636	11,061,864
Amortization of bond expense and deferred amount of funding	<u>206,869</u>	<u>168,393</u>
Total operating expenses	<u>\$ 46,394,523</u>	<u>\$ 43,728,908</u>

Total operating expenses increased \$2,665,615 or 6.1% from \$43,728,908, for 2009. Salaries and benefits were \$19,143,633 for 2010 compared to \$17,397,491, which is an increase of \$1,746,142 or 10%. This is partially due to an increase in contractual salary obligations for 2010. Operations and maintenance expenses totaled \$10,334,310 in 2010 as compared to \$9,466,921 in 2009, which is an increase of \$867,389 or 9.2%. Power for Production & Distribution increased approximately \$1,091,200. Although the Authority used less energy in 2010, the cost of electricity rose by 25%. Also, the credit amount the Authority received from the state for the load shedding program was down \$72,000, due to market forces in the energy sector, leading to higher net energy payments. The Authority participates in the Emergency Demand Response Program (EDRP) sponsored by the New York State Independent System Operator (NYISO). NYISO runs the power grid for the state, and is willing to pay customers to shed load during peak demand periods, rather than risk overloading the power grid. For each six month program period, the Authority pledges the ability to shed a certain quantity of electrical load and is paid monthly for this capacity.

### Non-Operating Revenue (Expenses)

The Authority's non-operating revenue (expenses) is composed of the following:

	<u>2010</u>	<u>2009</u>
Non-operating revenue (expenses):		
Interest earnings	\$ 253,038	\$ 432,166
Interest expense	(1,740,831)	(1,801,382)
Loss on disposal of capital assets	(67,407)	(300,961)
Realized and unrealized gains (losses) on investments, net	<u>(1,191)</u>	<u>17,266</u>
Total non-operating revenue (expenses), net	<u>\$ (1,556,391)</u>	<u>\$ (1,652,911)</u>

## FINANCIAL HIGHLIGHTS (Continued)

### Non-Operating Revenue (Expenses) (Continued)

Interest earnings decreased by \$179,128 primarily due to the substantial decrease in interest rates. Interest expense fluctuates yearly according to the debt service payment schedule. The Authority's investment philosophy is to buy high quality, low-risk investments such as U.S. Treasury bills and keep them to maturity. By holding these investments until maturity, the Authority ensures a relatively predictable level of interest income and cash flow by avoiding the risks of fluctuations and market value.

### LONG-TERM DEBT ADMINISTRATION

The Authority spends about 20%, or about \$10,500,000, of its annual budget on cash capital improvements. The Authority issued new debt in April 2010 for a refunding of existing debt and selected capital projects. Additionally, in December 2010 the Authority issued \$94.5 million water revenue bonds to finance the construction of the East Side Water Treatment Plant.

### Water Revenue Bonds

As of December 31, 2010, the Authority has five water revenue bond series outstanding totaling \$131,900,000. Included in this total is \$3,728,751, which represents 85.62% of the outstanding portion of the 1993 Series B Refunding, that is payable by Monroe County to the Authority under the terms of the Construction Services Agreement between Monroe County and the Authority dated December 21, 1990. In addition, the 2007 Series Refunding bonds outstanding of \$18,620,000 is payable by Genesee County to the Authority under the terms of the Construction Services Agreement between Genesee County and the Authority dated May 24, 2000. In April 2010, the Authority determined it was advisable and financially advantageous to issue 2010 Series bonds to refund the outstanding balance (\$9,640,000) of Series 1993A and Series 1997 bonds plus \$5,380,000 in new debt for certain capital projects. In December 2010, the Authority also issued Water Revenue Bonds, Series 2010A & Series 2010B for the construction of the East Side Water Treatment Plant. The Authority issued \$1,585,000 in taxable bonds (Series 2010A) and \$92,915,000 in Build America Bonds (Series 2010B).

Monroe County Water Authority Bond Series	Bonds Outstanding as of December 2010	Bonds Outstanding as of December 2009	Principal Due 2011
1993 Series A	\$ -	\$ 1,945,000	\$ -
1993 Series B Refunding	4,355,000	4,960,000	635,000
1997 Series Refunding	-	7,695,000	-
2007 Series Refunding	18,620,000	19,155,000	540,000
2010 Series	14,425,000	-	2,080,000
2010A Series	1,585,000	-	-
2010B Series	92,915,000	-	-
Total	<u>\$ 131,900,000</u>	<u>\$ 33,755,000</u>	<u>\$ 3,255,000</u>

## LONG-TERM DEBT ADMINISTRATION (Continued)

### Obligations under Capital Lease

The Authority entered into an agreement with Monroe County, dated November 18, 1969, in which Monroe County agreed to finance, and the Authority agreed to construct and pay for, certain improvements within Monroe County. Improvements constructed under this agreement are owned by Monroe County but leased to the Authority. The Authority operates these leased facilities with all the responsibilities of ownership. There remains \$7,859,684 outstanding for which the Authority is responsible for the repayment of principal and interest.

<u>County of Monroe Bond Series</u>	Bonds Outstanding as of December <u>2010</u>	Bonds Outstanding as of December <u>2009</u>	Principal Due <u>2011</u>
1996 Series A Refunding	\$ 2,365,285	\$ 2,557,317	\$ 203,018
2004 Series Refunding	2,343,365	2,933,780	613,932
2008 Series C Refunding	<u>1,975,000</u>	<u>2,275,000</u>	<u>300,000</u>
Total	<u>\$ 6,683,650</u>	<u>\$ 7,766,097</u>	<u>\$ 1,116,950</u>

### Credit Ratings

The Authority is the recipient of very favorable credit ratings from both Moody's Investors Service and Standard & Poor's. The Authority has an Aa2 rating assigned to its revenue bonds by Moody's Investors Service and an AA+ rating by Standard & Poor's. The Authority's bond ratings were last reviewed by Moody's Investor Service and by Standard & Poor's in December of 2010. The Authority issues revenue bonds subject to its Master Trust Indenture dated October 1, 1991 and Supplemental Indentures issued with, and specific to, each subsequent revenue bond issue.

### ECONOMIC FACTORS AND NEXT YEAR'S GOALS

Due to its long-term financial planning, the Authority's financial outlook remains strong even during the past year's trying economic times. Even with reduced sales attributed to the cool wet summer, the Authority was able to maintain its current rates. The Authority had its investment grade credit rating reaffirmed at AA+ by Standard & Poor's in 2010 and also had a ratings upgrade to Aa2 by Moody's in 2010.

Construction contracts for the East Side Water Supply project were awarded in December 2009 for the plant, pump station, and additional transmission pipelines. The Authority took advantage of expiring federal legislation for Build America Bonds, and the lower interest associated with this type of financing will result in significant interest expense savings to be passed each year to the Authority's rate payers. Construction of this \$150,000,000 project began in the first quarter of 2010 and is on schedule.

MCWA financed the first phase of the East Side Water Supply project through the New York State Environmental Facilities Corporation. The \$37,500,000 debt issue included \$17,500,000 in federal stimulus funding in the form of principal forgiveness, which will occur at the completion of the project subject to the Authority meeting certain conditions.

## **ECONOMIC FACTORS AND NEXT YEAR'S GOALS (Continued)**

In addition, in 2011, the Authority intends to spend \$11,048,200 for improvements to other infrastructure not related to the East Side Water Supply Project.

The following list of anticipated major capital improvements includes:

Cement Lining	\$ 1,500,000
Deficient Mains	3,000,000
Highway Replacements	250,000
Service/Hydrant Replacements	<u>725,000</u>
Total	<u>\$ 5,475,000</u>

The Authority believes it possesses the financial and leadership capabilities to accomplish its goals during the upcoming year.

### **Request for Information**

This financial report is designed to provide a general overview of the Monroe County Water Authority's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Director of Finance & Business Services, Monroe County Water Authority, 475 Norris Drive, Rochester, New York, 14610 or by email to [nick.noce@mcwa.com](mailto:nick.noce@mcwa.com).

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2010**  
(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 30,985,936	\$ 23,694,910
Marketable securities	-	8,187,083
Accounts receivable	3,711,572	3,921,702
Accrued unbilled revenue	5,460,000	5,320,000
Materials and supplies	1,224,230	1,230,010
Prepayments and other current assets	<u>601,820</u>	<u>366,762</u>
Total current assets	<u>41,983,558</u>	<u>42,720,467</u>
OTHER ASSETS:		
Capital assets -		
Nondepreciable	67,784,122	32,258,019
Depreciable, net	220,997,158	222,896,588
Funds held by trustee -		
Capital improvement fund	7,592,927	6,184,509
New construction fund	<u>19,241,584</u>	<u>27,722,283</u>
Total other assets	<u>315,615,791</u>	<u>289,061,399</u>
RESTRICTED ASSETS:		
Construction fund	94,792,635	-
Debt service fund held by trustee	2,714,562	114,482
Debt service reserve held by trustee	<u>2,141,666</u>	<u>556,104</u>
Total restricted assets	<u>99,648,863</u>	<u>670,586</u>
Total assets	<u>457,248,212</u>	<u>332,452,452</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES:		
Current portion of water revenue bonds	4,675,000	2,965,000
Current portion of obligations under capital leases	1,116,950	1,082,447
Accounts payable and accrued expenses	8,013,948	3,913,427
Accrued payroll and benefits	3,951,212	4,206,334
Accrued interest on water revenue and capital lease bonds	648,947	635,924
Customers' deposits	<u>208,568</u>	<u>176,913</u>
Total current liabilities	<u>18,614,625</u>	<u>12,980,045</u>
OTHER LIABILITIES:		
Water revenue bonds, net of unamortized bond discount, issuance costs and deferred amount on refunding of \$2,425,254 and \$1,638,481 for 2010 and 2009, respectively	134,590,252	29,151,519
Obligations under capital leases, net of deferred amount on refunding of \$127,114 and \$140,206 for 2010 and 2009, respectively	5,439,586	6,543,444
Other post-employment benefit obligations	<u>4,405,775</u>	<u>2,845,337</u>
Total other liabilities	<u>144,435,613</u>	<u>38,540,300</u>
Total liabilities	<u>163,050,238</u>	<u>51,520,345</u>
<b>NET ASSETS</b>		
INVESTED IN CAPITAL ASSETS, net of related debt	236,497,005	215,412,197
RESTRICTED	4,856,228	670,586
UNRESTRICTED	<u>52,844,741</u>	<u>64,849,324</u>
Total net assets	<u>\$ 294,197,974</u>	<u>\$ 280,932,107</u>

The accompanying notes are an integral part of these statements.

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

**STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**  
(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE:		
Water sales - residential	\$ 39,944,917	\$ 40,153,199
Water sales - industrial/commercial	4,967,522	4,919,377
Water sales - water district	3,238,811	3,175,017
Other water revenue	3,314,272	3,344,938
Other operating revenue	<u>566,479</u>	<u>583,894</u>
Total operating revenue	<u>52,032,001</u>	<u>52,176,425</u>
OPERATING EXPENSES:		
Salaries and fringe benefits	19,143,633	17,397,491
Operations and maintenance	10,334,310	9,466,921
General and administrative	5,432,075	5,634,239
Depreciation and amortization	11,277,636	11,061,864
Amortization of bond expense and deferred amount on refunding	<u>206,869</u>	<u>168,393</u>
Total operating expenses	<u>46,394,523</u>	<u>43,728,908</u>
Total operating income	<u>5,637,478</u>	<u>8,447,517</u>
NON-OPERATING REVENUE (EXPENSES):		
Interest earnings	253,038	432,166
Interest expense	(1,740,831)	(1,801,382)
Loss on disposal of capital assets	(67,407)	(300,961)
Unrealized and realized gains (losses) on investments, net	<u>(1,191)</u>	<u>17,266</u>
Total non-operating revenue (expenses), net	<u>(1,556,391)</u>	<u>(1,652,911)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>4,081,087</u>	<u>6,794,606</u>
CAPITAL CONTRIBUTIONS:		
Grants	5,760,500	-
Developers and customers	<u>3,424,280</u>	<u>3,722,337</u>
Total capital contributions	<u>9,184,780</u>	<u>3,722,337</u>
CHANGE IN NET ASSETS	13,265,867	10,516,943
NET ASSETS - beginning of year	<u>280,932,107</u>	<u>270,415,164</u>
NET ASSETS - end of year	<u>\$ 294,197,974</u>	<u>\$ 280,932,107</u>

The accompanying notes are an integral part of these statements.

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**  
(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 52,130,785	\$ 52,233,790
Payments to suppliers	(11,892,141)	(13,888,194)
Payments to employees	<u>(17,838,317)</u>	<u>(15,696,872)</u>
Net cash flow from operating activities	<u>22,400,327</u>	<u>22,648,724</u>
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Deposits into funds held by trustee	(91,905,996)	(775,082)
Purchases of capital assets	(35,950,829)	(12,523,341)
Proceeds from disposal of capital assets	163,893	104,619
Proceeds from bond issuance	110,810,000	-
Proceeds from bond anticipation note issuance	9,790,506	-
Bond premium	960,760	-
Repayments and redemptions of water revenue bonds	(12,665,000)	(2,847,787)
Debt issuance costs	(1,941,310)	(65,334)
Repayments of obligations under capital leases	(1,082,447)	(1,089,906)
Interest paid	<u>(1,727,808)</u>	<u>(1,865,970)</u>
Net cash flow from capital and related financing activities	<u>(23,548,231)</u>	<u>(19,062,801)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	-	(8,187,083)
Proceeds from investments	8,187,083	12,722,389
Interest received	<u>251,847</u>	<u>449,431</u>
Net cash flow from investing activities	<u>8,438,930</u>	<u>4,984,737</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>7,291,026</b>	<b>8,570,660</b>
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<b><u>23,694,910</u></b>	<b><u>15,124,250</u></b>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<b><u>\$ 30,985,936</u></b>	<b><u>\$ 23,694,910</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Operating income	\$ 5,637,478	\$ 8,447,517
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	11,484,505	11,230,257
Bad debt expense	3,001	16,239
Changes in:		
Accounts receivable	207,129	(393,334)
Accrued unbilled revenue	(140,000)	510,000
Materials and supplies	5,780	(68,012)
Prepayments and other current assets	(235,058)	357,219
Accounts payable and accrued expenses	4,100,521	907,520
Accrued payroll and benefits	(255,122)	116,794
Other post-employment benefit obligations, net	1,560,438	1,583,825
Customer deposits	<u>31,655</u>	<u>(59,301)</u>
Net cash flow from operating activities	<u>\$ 22,400,327</u>	<u>\$ 22,648,724</u>
<b>NON-CASH CAPITAL FINANCING ACTIVITY:</b>		
Capital assets received directly from developers and customers	<u>\$ 3,424,280</u>	<u>\$ 3,722,337</u>

The accompanying notes are an integral part of these statements.

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 (with comparative totals for 2009)**

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**1. ORGANIZATION**

Monroe County Water Authority (the Authority), a discretely presented component unit of the County of Monroe, New York (the County), is a public benefit corporation organized under the Public Authorities Law of the State of New York. The Authority was created to finance, construct, operate and maintain a water supply and distribution system for the benefit of the residents of the County and the State of New York.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent they do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The Authority has elected not to follow subsequent private sector guidance.

**Basis of Presentation**

GASB requires the classification of net assets into three classifications defined as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent capital-related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted net assets - This component of net assets consists of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets - This component consists of net assets that do not meet the definition of "invested in capital assets, net of related debt," or "restricted".

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Cash and Cash Equivalents**

For purposes of presenting the statement of cash flows, the Authority considers all highly liquid short-term investments with a maturity of three months or less from year-end to be cash or cash equivalents.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Marketable Securities**

Marketable securities are certificates of deposit with maturities extending beyond a three-month period from year-end and due within one year from the balance sheet date. The Authority reports these items at fair value based on quoted market prices.

### **Accounts Receivable**

Accounts receivable consists of fees for services for water charges due from individuals, businesses, and other governments. Accounts receivable are carried on the balance sheet at net realizable value. The Authority has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

### **Accrued Unbilled Revenues**

Accrued unbilled revenues represent revenue earned in the current year but not billed to customers until future dates, usually within three months, and is an estimate made by management using historical trends.

### **Materials and Supplies**

Materials and supplies are stated at cost and are determined using a weighted-average method.

### **Capital Assets**

Capital assets are stated at cost. Depreciation and amortization are provided using the straight-line method over the following estimated useful lives or lease term if shorter:

Production and distribution system	5 - 40 years
Water facility capital lease	5 - 25 years
Water rights	40 years
Pipelines and district facilities	40 years
Meters and distribution services	25 - 40 years
Automotive and construction equipment	5 years
Land improvements	10 - 20 years
Furniture, fixtures and other equipment	5 - 15 years

Improvements, renewals and significant repairs over \$5,000 that extend the life of the asset are capitalized; other repairs and maintenance costs are expensed as incurred. When assets are retired or otherwise disposed of, the related asset and accumulated depreciation is written off and any unrelated gains or losses are recorded.

### **Funds Held by Trustee**

Funds held by Bank of New York (the Trustee) consist of fixed income United States Government securities. The Authority reports these items at fair value based on quoted market prices. These funds are required to be held in accordance with the trust indentures for the water revenue bonds as described in Note 7.

### **Accrued Payroll and Benefits**

It is the Authority's policy to record employee benefits, including accumulated vacation and sick leave, as a current liability. The Authority's employees are granted vacation and sick leave in varying amounts based on employee contracts.

### **Other Postemployment Benefits**

The Authority provides certain health care benefits to its retired employees in accordance with the provisions of employment contracts. The Authority recognized the cost of providing these benefits by recording \$1,095,062 and \$1,071,675 as operating expenses in 2010 and 2009, respectively.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Unamortized Bond Discount and Expenses**

Bond discount and expenses related to the issuance of debt obligations are amortized over the term of the respective bond issues and capital leases.

### **Revenue Recognition**

Revenues from water sales are recognized at the time of service delivery based on actual or estimated water meter readings.

### **Budget**

The Authority is not required to have a legally adopted budget.

### **Operating and Non-Operating Revenues and Expenses**

Operating revenue consists of water revenue and other related revenue. The Authority defines non-operating revenue as interest earnings on investment assets and realized/unrealized gains or losses on sales of investments. Non-operating expenses are defined as interest expense on long-term debt and gains/losses on disposals of capital assets.

### **Capital Contributions from Developers and Customers**

Capital contributions from developers and customers represent amounts that developers and customers have contributed for betterments or additions to capital assets.

### **Income Tax Status**

As a public benefit corporation, the Authority is exempt from federal and state income taxes, as well as state and local property and sales taxes.

### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### **Comparative Information**

The financial statements include certain prior year summarized comparative information in total but not in the same detail used for current year presentation. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2009, from which the summarized information was obtained.

## **3. WATER AGREEMENT**

The Authority and the City of Rochester, New York entered into an agreement in 1978 that provides for the exchange of water between the two entities at a fixed rate that is established annually based on production costs. Authority consumption of the City's water is offset against the City's consumption of the Authority's water with the net consumption charged at the fixed annual rate. For the years ended December 31, 2010 and 2009, the Authority had net purchases from the City of \$1,199,317 and \$1,456,665, respectively.

#### 4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

The guidelines established by the Authority permit the investment of funds held by the Authority and funds held in trust for the Authority to be invested in accordance with New York State Public Authorities Law. Investments must be in the form of obligations of the State of New York, or in general obligations of its political subdivisions; obligations of the United States or its agencies whose principal and interest payments are fully guaranteed by the federal government; and in collateralized time deposits or certificates of deposit issued by a commercial bank or trust company, which is a member of the Federal Deposit Insurance Corporation (FDIC). The Authority's investment policy limits its deposit and investment activity to time deposits, demand deposits, certificates of deposit, United States Government obligations and repurchase agreements.

The Authority's investment policy requires its deposits and investments, not controlled by the Trustee, to be 100% collateralized through federal deposit insurance or other obligations. Obligations that may be pledged as collateral are obligations of, or guaranteed by, the United States or the State of New York. Collateral must be delivered to the Authority or an authorized custodial bank. In addition, the Authority's investment policy includes the following provisions for credit risk and custodial credit risk (as defined below):

- Custodial credit risk  
For cash deposits or investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.
  - The Authority limits its investments (other than United States securities held by the Trustee) at any financial institution to 1% of such institution's total assets.
  - Any financial institution in which the Authority invests funds must have in excess of \$50,000,000 in capital stock and retained earnings and the Authority limits its investments (other than United States securities held by the Trustee) at these institutions to 5% of the total capital stock and retained earnings.
- Credit risk
  - The Authority limits its investments in money market funds to those with the highest short-term or long-term rating by at least one nationally recognized rating agency. As of December 31, 2010 and 2009, the Authority's investment in M&T Bank's money market fund issuer rating is AA and long-term deposit rating is A by Moody's Investors Service. As of December 31, 2010 and 2009, the Authority's investment in US Bank is rated AAA by Moody's Investors Service.

In 2010 and 2009, the Authority invested in a money market account which does not require collateral because it invests exclusively in debt instruments of the United States Treasury. Deposits held by the Authority in this investment were \$10,654 and \$60,654 at December 31, 2010 and 2009, respectively, and are excluded from the table on the following page.

#### 4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Total deposits of cash and cash equivalents and marketable securities and related collateral, included in cash and cash equivalents and marketable securities, not controlled by the Trustee (including certificates of deposit and money market funds) are as follows for the years ended December 31:

	<u>2010</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	<u>\$ 30,975,282</u>	<u>\$ 31,960,091</u>
Total cash and investments	<u>\$ 30,975,282</u>	<u>\$ 31,960,091</u>
Insured cash - FDIC		\$ 2,078,109
Uninsured - collateralized with securities held by pledging financial institution		<u>30,321,249</u>
Total insured and collateralized cash and cash equivalents		<u>\$ 32,399,358</u>

	<u>2009</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand deposits	\$ 21,438,048	\$ 21,833,780
Time deposits	<u>10,383,291</u>	<u>10,383,291</u>
Total cash and investments	<u>\$ 31,821,339</u>	<u>\$ 32,217,071</u>
Insured cash - FDIC		\$ 12,191,377
Uninsured - collateralized with securities held by pledging financial institution		<u>22,739,457</u>
Total insured and collateralized cash, cash equivalents and marketable securities		<u>\$ 34,930,834</u>

Total cash and cash equivalents and marketable securities by type as of December 31, including certificates of deposit controlled by the Trustee and reported in 'Capital improvement fund', 'New construction fund,' 'Construction fund,' and 'Restricted Assets' in the accompanying financial statements, are as follows:

	<u>2010</u>	<u>2009</u>
United States Treasury obligations	\$ 411,519	\$ 1,133,998
United States Treasury bills	126,068,471	33,441,863
Money market funds	25,700,960	21,343,861
Certificates of deposit	-	10,383,291
Cash	<u>5,288,360</u>	<u>156,358</u>
	<u>\$ 157,469,310</u>	<u>\$ 66,459,371</u>

#### 4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

The following deposits and investments, excluding amounts controlled by the Trustee, held with one financial institution represent five percent or more of the Authority's total deposits and investments at either December 31, 2010 and 2009, or both:

	<u>2010</u>	<u>2009</u>
HSBC Bank	\$ 9,174,502	\$ 6,458,745
M&T Bank	\$ 17,277,978	\$ 12,616,745
First Niagara Bank	\$ 4,504,966	\$ -
Citizens Bank	\$ -	\$ 12,727,034

#### 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance January 1, <u>2010</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	Balance December 31, <u>2010</u>
Land and easements	\$ 9,057,876	\$ -	\$ 31,836	\$ -	\$ 9,089,712
Construction-in-progress	<u>23,200,143</u>	<u>43,152,071</u>	<u>(7,657,804)</u>	<u>-</u>	<u>58,694,410</u>
Total non-depreciable assets	<u>\$ 32,258,019</u>	<u>\$ 43,152,071</u>	<u>\$ (7,625,968)</u>	<u>\$ -</u>	<u>\$ 67,784,122</u>
Land improvements	\$ 1,293,807	\$ -	\$ -	\$ -	\$ 1,293,807
Production and distribution system	90,989,646	40,314	414,246	-	91,444,206
Pipelines and district facilities	203,925,154	1,103,875	4,471,770	-	209,500,799
Meters and services	61,612,047	839,349	1,834,290	(208,493)	64,077,193
Automotive equipment	6,305,965	-	883,067	(555,761)	6,633,271
Water rights	1,986,726	-	-	-	1,986,726
Water facility capital lease	78,056,980	-	-	-	78,056,980
Furniture, fixtures and other equipment	<u>2,583,966</u>	<u>-</u>	<u>22,595</u>	<u>-</u>	<u>2,606,561</u>
Total at cost	<u>446,754,291</u>	<u>1,983,538</u>	<u>7,625,968</u>	<u>(764,254)</u>	<u>455,599,543</u>

## 5. CAPITAL ASSETS (Continued)

	Balance January 1, <u>2010</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	Balance December 31, <u>2010</u>
Less: Accumulated depreciation and amortization for:					
Land improvements	\$ (411,624)	\$ (90,845)	\$ -	\$ -	\$ (502,469)
Production and distribution system	(42,648,884)	(3,552,991)	-	-	(46,201,875)
Pipelines and district facilities	(77,274,394)	(4,596,544)	-	-	(81,870,938)
Meters and distribution services	(23,644,471)	(1,625,021)	-	135,000	(25,134,492)
Automotive and construction equipment	(3,493,251)	(588,602)	-	397,954	(3,683,899)
Water rights	(671,020)	(49,705)	-	-	(720,725)
Water facility capital lease	(73,958,544)	(648,186)	-	-	(74,606,730)
Furniture, fixtures and other equipment	<u>(1,755,515)</u>	<u>(125,742)</u>	<u>-</u>	<u>-</u>	<u>(1,881,257)</u>
Total accumulated depreciation and amortization	<u>(223,857,703)</u>	<u>(11,277,636)</u>	<u>-</u>	<u>532,954</u>	<u>(234,602,385)</u>
Total depreciable assets - net	<u>\$ 222,896,588</u>	<u>\$ (9,294,098)</u>	<u>\$ 7,625,968</u>	<u>\$ (231,300)</u>	<u>\$ 220,997,158</u>

Depreciation and amortization expense, including water facilities under capital lease, was \$11,277,636 and \$11,061,864 for the years ended December 31, 2010 and 2009, respectively. Included in this amount is amortization expense relating to the water rights of \$49,705 for both years ended December 31, 2010 and 2009.

## 6. CAPITAL LEASES

The Authority and the County entered into an agreement in 1969 which provides for the Authority, as agent of the County, to plan, construct, operate, manage, repair and maintain certain water facilities owned by the County and primarily financed through County bond issues. These water facilities are leased to the Authority, which, along with capital assets owned by the Authority, become an integrated water system.

These leases are defined as capital leases and the related facilities are recorded as an asset that is generally amortized over the term of the lease and the related bond issue, whichever is shorter. The lease obligation is shown as a liability with the related interest expense reported as non-operating expenses.

Water facilities under capital leases that are included within capital assets as of December 31 are as follows:

	<u>2010</u>	<u>2009</u>
Completed water facilities	\$ 78,056,980	\$ 78,056,980
Less: Accumulated amortization	<u>(74,606,730)</u>	<u>(73,958,544)</u>
	<u>\$ 3,450,250</u>	<u>\$ 4,098,436</u>

## 6. CAPITAL LEASES (Continued)

Amortization expense related to water facilities under capital leases was \$648,186 and \$913,736 for the years ended December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, the amount of the County bonds outstanding is included in obligations under capital leases. The expended portion of the bond proceeds is included in water facilities under capital leases.

During 2002, the County defeased a portion of the 1996C outstanding bonds by placing \$1,523,412 into an irrevocable escrow account to provide for future debt service payments. Accordingly, the escrow account and the defeased portion of the bonds are not included in the Authority's basic financial statements. The excess of the net carrying amount of the refunded bonds over the reacquisition price, or a deferred gain, in the amount of \$358,827 had been deferred and was being amortized over the term of the new bonds using the straight-line method until 2008.

The County issued \$51,005,000 in general obligation refunding bonds in 2004, of which \$5,964,830 refunded the County's 1993 Revenue Bonds. This resulted in a deferred loss of \$185,170 and an interest savings of approximately \$585,000 to the Authority. The excess of the reacquisition price over the net carrying amount of the refunded bonds, or a deferred loss, in the amount of \$185,170 has been deferred and is being amortized over the term of the new bonds using the straight-line method.

In 2008, the County issued \$2,570,000 in general obligation refunding bonds, which refunded the remaining 1996C bonds. This resulted in a deferred loss of \$30,000 and, along with the remaining unamortized gain on the previous refunding, is being amortized over the term of the new bond using the straight-line method. This refunding resulted in approximately \$125,000 of savings.

Long-term capital lease activity for the year ended December 31, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
County bonds issued in 1996 Series A as part of the refunding that mature in annual amounts ranging from \$203,000 to \$331,000 from 2011 to 2019 bearing interest ranging from 5.125% to 6.00%	\$ 2,557,317	\$ -	\$ (192,032)	\$ (203,018)	\$ 2,162,267
County bonds issued in 2004 as part of the series 1993 refunding that mature in annual amounts ranging from \$561,000 to \$614,000 from 2011 and 2014 bearing interest paid ranging from 4.00% to 5.00%	2,933,780	-	(590,415)	(613,932)	1,729,433

## 6. CAPITAL LEASES (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Due Within One Year</u>	<u>Due After One Year</u>
County bonds issued in 2008 Series C as part of the Series 1996C refunding that mature in annual amounts ranging from \$240,000 to \$320,000 from 2011 and 2014 bearing interest paid ranging from 3.00% to 4.00%	\$ 2,275,000	\$ -	\$ (300,000)	\$ (300,000)	\$ 1,675,000
Add: Deferred loss on refunding	89,499	-	(18,517)	-	70,982
Less: Deferred gain on refunding	<u>(229,705)</u>	<u>31,609</u>	<u>-</u>	<u>-</u>	<u>(198,096)</u>
Long-term capital lease liabilities	<u>\$ 7,625,891</u>	<u>\$ 31,609</u>	<u>\$(1,100,964)</u>	<u>\$(1,116,950)</u>	<u>\$ 5,439,586</u>

The following is a schedule of the future minimum lease payments under the capital leases as of December 31:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,116,950	\$ 303,885	\$ 1,420,835
2012	1,124,740	251,544	1,376,284
2013	1,104,159	198,602	1,302,761
2014	1,085,872	145,444	1,231,316
2015	534,873	105,876	640,749
2016 - 2019	<u>1,717,056</u>	<u>170,683</u>	<u>1,887,739</u>
	<u>\$ 6,683,650</u>	<u>\$ 1,176,034</u>	<u>\$ 7,859,684</u>

## 7. WATER REVENUE BONDS

The Authority has entered into Trust Indentures under which all outstanding bonds have been issued. The Trust Indentures pledge all revenues and other income collected by the Authority for payment of principal and interest on the bonds. The Trust Indentures also generally require establishment of a trust fund called "the water system revenue fund," for which the Authority acts as a trustee, into which all revenue is to be deposited, as well as a debt service reserve fund under which the Authority is required to maintain on deposit amounts sufficient to cover the annual debt service or provide a surety bond (as defined in the Trust Indentures) of its bonds. The Authority covenants in its indenture that it will establish water rates sufficient to cover the sum of: (1) 1.2 times debt service, (2) expenses of operating, maintaining, renewing and replacing the water system and maintaining the debt service reserve fund, and (3) any additional amounts required to pay all other charges payable from the Authority's revenue. As of December 31, 2010 and 2009, the Authority is in compliance with its financial covenants.

## **7. WATER REVENUE BONDS (Continued)**

In January 1998, the Authority issued \$16,725,000 of water system revenue refunding bonds to refund portions of the 1991A, 1992A, and the 1994 issuances of water system revenue bonds. Principal and interest over the term of the retired debt totaled \$28,120,102, while the principal and interest over the term of the refunding debt totals \$26,376,498. The overall net effect of this transaction is savings to the Authority of \$1,743,604. The difference between the reacquisition price and the net carrying amount of the refunded bonds in the amount of \$1,683,237 has been deferred and is being amortized over the term of the new bonds using the straight-line method.

Of the 1993 Series B bonds, \$4,246,752 or 85.62% of the outstanding bonds at December 31, 2010 is payable by the County to the Authority under the terms of the Construction Services Agreement between the County and the Authority dated December 21, 1990. In addition, the entire \$20,000,000 of the 2001 Series was payable by Genesee County to the Authority under the terms of the Construction Services Agreement between Genesee County and the Authority dated May 24, 2000. The first principal payment on the 2001 Series was made in 2006. During 2007, the bonds were advance refunded by the Authority on behalf of Genesee County with the issuance of the Series 2007 Bonds noted on the following page.

The refunding of the Series 2001 Bonds by the Authority for the Genesee County Project closed on July 26, 2007. The \$20,212,787 bond was part of the New York State Environmental Facilities Corporation issue of \$146,030,000 State Clean Water & Drinking Water Revolving Fund Revenue Bonds Series 2007D, dated July 26, 2007. This refinancing and its associated costs will save Genesee County over \$4,900,000 over the term of the bond. The entire \$20,212,787 of the 2007D Series is payable by Genesee County to the Authority under the Construction Services Agreement between Genesee County and the Authority dated May 24, 2000. In addition, the bond refunding resulted in an economic gain on refunding of \$2,381,667. The excess of the net carrying amount of the refunded bonds over the reacquisition price in the amount of \$1,061,231 has been deferred and was allocated between bond discount and deferred gain on refunding and is being amortized over the term of the new bonds using the straight-line method.

On December 14, 2009, the Authority issued a Bond Anticipation Note (BAN) Series 2009A at 0% interest under the New York State Environmental Facilities Corporation short-term financing program for \$35,500,000. The BAN requires annual principal payments beginning December 1, 2011 and continuing until maturity, or December 31, 2012. There was approximately \$65,000 of debt issuance costs capitalized as of December 31, 2009.

In 2010, the Authority issued the 2010 Series bonds which refunded the 1993 Series A bonds and the 1997 bonds. This refinancing and its associated costs were paid by the Authority and will save the Authority approximately \$773,000 over the term of the bond. In addition, the bond refunding resulted in an economic gain on refunding of \$680,000. The excess of the net carrying amount of the refunded bonds over the reacquisition price in the amount of \$527,039 has been deferred and was allocated between bond premium and deferred gain on refunding and is being amortized over the term of the new bonds using the straight-line method.

## 7. WATER REVENUE BONDS (Continued)

Long-term water revenue bond activity for the year ended December 31, 2010 was as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Due Within <u>One Year</u>	Due After <u>One Year</u>
Bonds issued in 1993 Series A that mature in annual amounts ranging from \$175,000 to \$260,000 from 2011 to 2018 bearing interest at 5.25%	\$ 1,945,000	\$ -	\$ (1,945,000)	\$ -	\$ -
Bonds issued in 1993 Series B that mature in annual amounts ranging from \$635,000 to \$825,000 from 2011 to 2016 bearing interest at 5.25%	4,960,000	-	(605,000)	(635,000)	3,720,000
Bonds issued in 1997 as part of the refunding that mature in annual amounts ranging from \$260,000 to \$1,725,000 from 2011 to 2019 bearing interest ranging from 4.75% to 5.00%	7,695,000	-	(7,695,000)	-	-
Bonds issued in 2007 as part of refunding that mature in annual amounts ranging from \$540,000 to \$1,115,000 from 2011 to 2036 bearing interest ranging from 3.63% to 4.97%	19,155,000	-	(535,000)	(540,000)	18,080,000
Bonds issued in 2010 as part of refunding that mature in annual amounts ranging from \$205,000 to \$2,080,000 from 2011 to 2035 bearing interest ranging from 2.0% to 4.5%	-	16,310,000	(1,885,000)	(2,080,000)	12,345,000
Bonds issued in 2010 Series A that mature in annual amounts ranging from \$25,000 to \$1,275,000 from 2011 to 2017 bearing interest ranging from 2.190% to 2.6%	-	1,585,000	-	-	1,585,000
Bonds issued in 2010 Series B as part of refunding that mature in annual amounts ranging from \$25,000 to \$1,275,000 from 2011 to 2042 bearing interest ranging from 4.494% to 6.339%	-	92,915,000	-	-	92,915,000
Bond anticipation note issued in 2009 at 0% interest and maturing in 2012.	-	9,790,506	-	(1,420,000)	8,370,506
Add: Deferred gain on refunding	-	960,760	-	-	960,760
Less: Deferred loss on refunding	(701,193)	(527,039)	456,967	-	(771,265)
Less: Debt issue costs	<u>(937,288)</u>	<u>(1,809,769)</u>	<u>132,308</u>	<u>-</u>	<u>(2,614,749)</u>
Long-term water revenue bond liabilities	<u>\$32,116,519</u>	<u>\$119,224,458</u>	<u>\$(12,075,725)</u>	<u>\$ (4,675,000)</u>	<u>\$134,590,252</u>

## 7. WATER REVENUE BONDS (Continued)

The following is a schedule of the future minimum payments under the water revenue bonds as of December 31, 2010:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 4,675,000	\$ 4,938,290	\$ 9,613,290
2012	10,475,506	7,098,291	17,573,797
2013	2,165,000	7,031,392	9,196,392
2014	2,230,000	6,959,691	9,189,691
2015	2,325,000	6,878,413	9,203,413
2016 - 2020	16,775,000	32,732,742	49,507,742
2021 - 2025	17,845,000	28,949,125	46,794,125
2026 - 2030	21,615,000	23,647,496	45,262,496
2031 - 2035	26,605,000	16,718,358	43,323,358
2036 - 2040	25,660,000	8,595,124	34,255,124
2041 - 2042	<u>11,320,000</u>	<u>1,104,170</u>	<u>12,424,170</u>
	<u>\$ 141,690,506</u>	<u>\$ 144,653,092</u>	<u>\$ 286,343,598</u>

## 8. PENSION PLAN

### **New York State and Local Employees' Retirement System Plan Description**

Generally all of the Authority's employees (excluding part-time employees) participate in the New York State and Local Employees' Retirement System (the System). The System is a cost-sharing multiple-employer retirement system. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, Governor Alfred E. Smith Office Building, Albany, New York, 12244.

### **Funding Policy**

Membership, benefits, and employer and employee obligations to contribute are described in the NYSRSSL using the tier concept. Pension legislation established tier membership by the date a member last joined the Retirement System. They are as follows:

- Tier 1 - Those persons who last became members of the System before July 1, 1973.
- Tier 2 - Those persons who last became members on or after July 1, 1973, but before July 27, 1976.
- Tier 3 - Generally those persons who are State correction officers who last became members on or after July 27, 1976, and all others who last became members on or after July 27, 1976, but before September 1, 1983.
- Tier 4 - Generally, except for correction officers, those persons who last became members on or after September 1, 1983.
- Tier 5 - Those persons who last became members of the System on or after January 1, 2010.

## 8. PENSION PLAN (Continued)

### Funding Policy (Continued)

The Authority's employees are among all of the five Tiers and employees in Tier 3, 4, and 5 are required to contribute 3% of their wages to the System. For employees in Tier 3 and 4, the 3% contribution ceases after 10 years of membership or 10 years of credited service.

The System cannot be diminished or impaired. Benefits can be reduced for future membership only by an act of the New York State Legislature. The Authority's contributions for the years 2010, 2009 and 2008 were equal to the required contributions for the plan fiscal year as follows:

<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>\$ 1,510,752</u>	<u>\$ 832,010</u>	<u>\$ 1,141,367</u>

Effective May 14, 2003, the System requires a minimum employer contribution of 4.5% annually of the System's fund value at April 1 of the previous fiscal year. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ended March 31, 2008 (which otherwise were to have been paid on December 15, 2007) over a 5-year period, with an 8.00% interest factor added. Local governments were given the option to prepay this liability. The Authority elected to make the full payment on November 28, 2007.

### Single Employer Pension Plan Description

The Authority has one single employer defined contribution pension plan for its employees. The name of the plan is Deferred Compensation Plan for Employees of Monroe County Water Authority (the Plan). The Plan's fiscal year ends on December 31 of each year. The Deferred Compensation Committee of the Authority administers the Plan and also has the authority to establish and amend the contribution requirements and benefit provisions of the Plan. The Authority does not make contributions to this plan

The Plan provides for tax-deferred participant contributions between a minimum of \$260 per year and a maximum contribution of the lesser of 100% of the participant's compensation for the calendar year or the maximum amount permitted by Section 457(e)(15) of the Internal Revenue Code. Benefits paid from the Plan consist of retirement benefits, certain hardship withdrawals and loans to participants as applicable. Participants should refer to the Plan's document for a complete description of the Plan's provisions.

Total employee contributions remitted by the Authority to the Plan were \$1,092,480 and \$744,057 for the years ended December 31, 2010 and 2009, respectively.

## 9. POST-EMPLOYMENT HEALTH CARE BENEFITS

### Plan Description

The Authority provides certain health care benefits for retired employees. The Authority administers the Retirement Benefits Plan (the "Retirement Plan") as a single-employer defined benefit Other Post-employment Benefit Plan (OPEB).

In general, the Authority provides health care benefits for those retired personnel who are eligible for a pension through the New York State Employees' Retirement System (ERS). The Retirement Plan can be amended by action of the Authority subject to applicable collective bargaining and employment agreements. The number of retired employees currently eligible to receive benefits at December 31, 2010 and 2009, was 127 and 113, respectively. The Retirement Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan.

## 9. POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

### Funding Policy

The obligations of the Retirement Plan are established by action of the Authority pursuant to applicable collective bargaining and employment agreements. The required premium contribution rates of retirees range from 0% to 10%, depending on when the employee was hired. The Authority will pay its portion of the premium for the retiree and spouse for the lifetime of the retiree. The costs of administering the Retirement Plan are paid by the Authority. The Authority currently contributes enough money to the Retirement Plan to satisfy current obligations on a pay-as-you-go basis to cover annual premiums.

### Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year plus the amortization of the unfunded actuarial accrued liability over a period not to exceed 30 years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the Retirement Plan, and the changes in the Authority's net OPEB obligation:

Annual required contribution	\$ 2,672,500
Interest on net OPEB obligation	63,100
Adjustment to ARC	<u>(80,100)</u>
Annual OPEB cost	2,655,500
Contributions made	<u>(1,095,062)</u>
Increase in net OPEB obligation	1,560,438
Net OPEB obligation - beginning of year	<u>2,845,337</u>
Net OPEB obligation - end of year	<u>\$ 4,405,775</u>

The following table provides trend information for the Retirement Plan:

### Trend Information

Year	Annual OPEB Cost	Actual Employer Contribution	Percent Contributed	Net OPEB Obligation
2010	\$2,655,500	\$1,095,062	41.2%	\$4,405,775
2009	\$2,655,500	\$1,071,675	40.4%	\$2,845,337
2008	\$1,581,300	\$988,696	62.5%	\$1,261,512

### Funded Status and Funding Progress

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Retirement Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Retirement Plan is currently not funded.

The schedule of funding progress presents information on the actuarial value of plan assets relative to the actuarial accrued liabilities (AAL) for benefits.

## 9. POST-EMPLOYMENT HEALTH CARE BENEFITS (Continued)

### Schedule of Funding Progress for the Authority's Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
1/1/2009	\$ _____ -	\$ 26,490,000	\$ 26,490,000	0.0%	\$ 14,554,205	182.0%
1/1/2007	\$ _____ -	\$ 17,499,400	\$ 17,499,400	0.0%	\$ 13,065,608	133.93%

#### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2009 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	5.0%
Medical care cost trend rate	5.9%, 7.2%, or 8.7% initially, based on age of employees and type of plan chosen. The rate is reduced by decrements each year to an ultimate rate of 5% in 2034 or 2038, depending on type of plan chosen.
Dental care cost trend rate	5% until 2040
Unfunded actuarial accrued liability:	
Amortization period	30 years
Amortization method	Level dollar
Amortization basis	Open

\* As the plan is unfunded, the assumed discount rate considers that the Authority's investment assets are low risk in nature, such as money market funds or certificates of deposit.

## 10. COMMITMENTS AND CONTINGENCIES

### Commitments

The Authority has entered into agreements with various water districts, towns and villages whereby the Authority obtains the use of the water facilities and agrees to provide water services to the residents of such districts. A number of these agreements require payments to be made by the Authority equal to the interest and principal due each year on the districts' outstanding debt related to the leased facilities. These agreements are classified as operating leases in the accompanying financial statements and recorded as a component of operating expenses. Any improvements to these facilities are capitalized by the Authority.

**10. COMMITMENTS AND CONTINGENCIES (Continued)**

**Commitments (Continued)**

Amounts due under these commitments are summarized as follows for the years ending December 31:

2011	\$	357,413
2012		345,148
2013		121,515
2014		82,521
2015		79,756
2016 - 2020		301,534
2021 - 2023		<u>137,044</u>
	\$	<u>1,424,931</u>

Total rental expense charged to operations amounted to \$356,268 and \$467,862 during the years ended December 31, 2010 and 2009, respectively.

The Authority has entered into a Water System Construction/Operation Agreement with Genesee County to finance, construct, own, operate and supply water service in the County of Genesee. The Authority plans to develop the Genesee County project in two phases.

Phase I of the project involved the construction of approximately thirty-five miles of water mains financed with the proceeds of the 2001 Series Water Revenue Bonds and capital grants from state and federal agencies (See further disclosure in Note 7). Expenditures of \$24,061,115 were incurred for this project with Phase I being completed in 2004.

Phase II of the project has not yet started but will include an additional water main connection to the Authority's system in several towns of Genesee and Monroe Counties. There have been no expenditures incurred for Phase II of the project.

The Authority has entered into an agreement with the County for the County to provide certain public safety and security services to the Authority from January 1, 2010 through December 31, 2029.

Amounts due under this agreement are summarized as follows for the years ended December 31:

2011	\$	750,000
2012		1,000,000
2013		1,350,000
2014		1,500,000
2015		1,650,000
2016 - 2020		8,750,000
2021 - 2026		8,100,000
2027 - 2029		<u>3,500,000</u>
	\$	<u>26,600,000</u>

The Authority expensed \$400,000 under this agreement during the year ended December 31, 2010.

## **10. COMMITMENTS AND CONTINGENCIES (Continued)**

### **Contingencies**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The Authority has various insurance policies with third-party carriers related to property protection, casualty and statutory and non-statutory employee protection.

The Authority is subject to litigation in the ordinary conduct of its affairs. Management does not believe, however, that such litigation, individually or in the aggregate, is likely to have a material adverse effect on the financial condition of the Authority.

## **11. TERMINATION BENEFITS**

During 2010, the Authority approved a one-time early retirement incentive plan, known as the 2010-2011 Retirement Incentive Program (the Program), for all employees. This Program was initiated by the System and has two different incentive programs, Part A and Part B. To be eligible for Part A under the Program, employees were required to have 10 years of service with the Authority and be at least 50 years of age or employees must be at least 55 years of age and have five or more years of service as of the date of retirement. To be eligible for Part B of the Program, employees must be Tier 2, 3, or 4 and must be at least 55 years of age and have 25 or more years of service credit. For both Part A and Part B of the Program, an employee also must have been in active service from February 1, 2010 until the commencement of the open period on September 13, 2010. Eligible employees under both Part A and B of the Program were required to retire by December 11, 2010.

Employees taking advantage of Part A of the Program received approximately one month of additional service credit for each year of service, up to a maximum of three additional years of service credit. Employees taking advantage of Part B of the Program are allowed to retire at age 55 without a benefit reduction.

During the year ended December 31, 2010, seventeen employees elected early retirement under the Program. Sixteen of those employees were included in Part A of the Program and one of those employees was included in Part B. The estimated present value of the benefits provided to the retirees under the Program is reported as a liability to the Authority of approximately \$778,000 and is included in accrued liabilities in the statement of net assets at December 31, 2010. The Authority intends to fund the Program as a one-time payment to the System in 2011.

## **12. SELF INSURANCE**

Beginning January 1, 2010, the Authority has elected to be self-insured for workers' compensation claims. The Authority transfers its risk of loss through a purchase of commercial insurance for workers' compensation benefits up to a maximum aggregate of \$5,000,000, subject to a deductible of \$400,000 per occurrence. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At December 31, 2010, there are no liabilities recorded for workers' compensation claims.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

March 10, 2011

To the Board of Directors of  
Monroe County Water Authority:

We have audited the financial statements of the business-type activities of Monroe County Water Authority (the Authority), a public benefit corporation of the State of New York and a discretely presented component unit of the County of Monroe, New York, as of and for the year ended December 31, 2010, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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(Continued)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***  
(Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the New York State Authorities Budget Office, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE  
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

March 10, 2011

To the Board of Directors of  
Monroe County Water Authority:

**Compliance**

We have audited Monroe County Water Authority's (the Authority's), a public benefit corporation of the State of New York and a discretely presented component unit of the County of Monroe, New York, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2010. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

**Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

(Continued)

**Internal Control Over Compliance (Continued)**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, the New York State Authorities Budget Office, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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Federal Grantor/Pass-Through Grantor/Federal Program or <u>Cluster Title Number</u>	<u>Federal CFDA Number</u>	<u>Grant Identifying Number</u>	<u>Amounts Expended</u>
U.S. Environmental Protection Agency:			
ARRA-Capitalization Grants for Drinking Water State Revolving Funds	66.468	16323-70	\$ 17,056,117
Congressionally Mandated Projects	66.201	XP972710-05	<u>5,760,500</u>
Total Expenditures of Federal Awards			<u>\$ 22,816,617</u>

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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**1. GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of the federal award programs of Monroe County Water Authority (the Authority). The schedule includes expenditures of federal programs received directly from federal agencies, as well as federal assistance passed through other organizations. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented in conformity with accounting principles generally accepted in the United States.

**3. MATCHING COSTS**

Matching costs, i.e., the Authority's share of certain program costs, are not included in the schedule of expenditures of federal awards.

**4. REIMBURSED EXPENSES**

As of December 31, 2010, the Authority spent \$17,056,117 on the ARRA – Capitalization Grants for Drinking Water State Revolving Funds program (CFDA Number 66.468) for construction of the East Side Water Supply Project. As of December 31, 2010, \$9,790,506 had been received for this project. However, on the schedule of expenditures of federal awards, \$17,056,117 was recognized.

**MONROE COUNTY WATER AUTHORITY**  
**(A Discretely Presented Component Unit of the County of Monroe, New York)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

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**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Monroe County Water Authority (the Authority).
2. No significant deficiencies or material weaknesses relating to the audit of the basic financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the basic financial statements of the Authority were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements that Could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Authority expresses an unqualified opinion.
6. No audit findings relative to the financial statement audit for the Authority are required to be reported in accordance with Section 501(a) of OMB Circular A-133.
7. The programs tested as major programs were:
  - CFDA No. 66.468 - ARRA- Capitalization Grants for Drinking Water State Revolving Funds
  - CFDA No. 66.202 - Congressionally Mandated Projects
8. The threshold for distinguishing Types A and B programs was \$684,499.
9. The Authority was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.